



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

January 29, 2007

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on Adair County, Iowa.

The County had local tax revenue of \$11,142,008 for the year ended June 30, 2006, which included \$704,785 in tax credits from the state. The County forwarded \$8,136,332 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,005,676 of the local tax revenue to finance County operations, a 3 percent increase over the prior year. Other revenues included charges for service of \$257,743, operating grants, contributions and restricted interest of \$2,959,218, capital grants, contributions and restricted interest of \$805,937, tax increment financing of \$197,312, local option sales tax of \$288,283, unrestricted investment earnings of \$124,749 and other general revenues of \$71,949.

Expenses for County operations totaled \$6,747,812, a 9 percent increase over the prior year. Expenses included \$3,888,685 for roads and transportation, \$855,218 for public safety and legal services and \$638,628 for mental health.

A copy of the report is available for review in the County Auditor's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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ADAIR COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

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Adair County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Hoadley	Board of Supervisors	Jan 2007
John VanVleet	Board of Supervisors	Jan 2007
Richard Dolan	Board of Supervisors	Jan 2009
Robert Grasty	Board of Supervisors	Jan 2009
Bill Lamb	Board of Supervisors	Jan 2009
Jenice K. Wallace	County Auditor	Jan 2009
Ronald Herr	County Treasurer	Jan 2007
Janelle Schneider	County Recorder	Jan 2007
Randy Marchant	County Sheriff	Jan 2009
Clint Hight	County Attorney	Jan 2007
Kenneth E. Huddleson	County Assessor	Jan 2008

Adair County



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Independent Auditor's Report

To the Officials of Adair County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Adair County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Adair County's management. Our responsibility is to express opinions on these financial statements based on our audit.

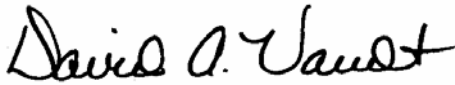
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Adair County at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2006 on our consideration of Adair County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adair County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adair County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased 19.8%, or approximately \$1,905,000, from fiscal 2005 to fiscal 2006. Charges for service decreased \$179,000 and capital grants, contributions and restricted interest decreased approximately \$2,344,000. Approximately \$288,000 of voter approved local option sales tax was collected beginning July 1, 2005.
- The County's program expenses increased 9.2%, or approximately \$568,000, from fiscal 2005 to fiscal 2006. Roads and transportation expense increased approximately \$539,000.
- The County's net assets increased 9.5%, or approximately \$963,000, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Adair County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Adair County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Adair County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the County's Internal Service, Employee Health Insurance Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for emergency management services and the County Assessor, to name a couple.

The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

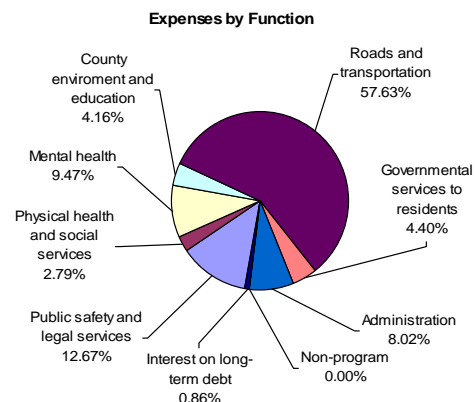
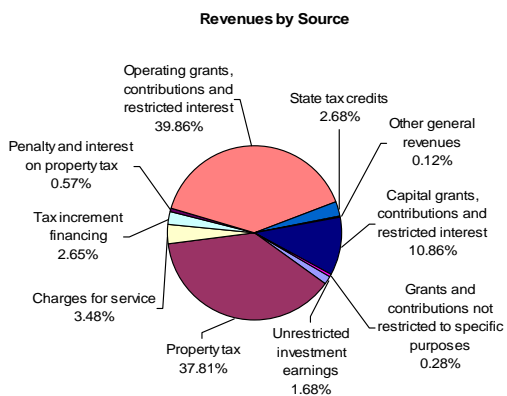
As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the changes in the net assets of governmental activities from a year ago.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2006	2005
Land	\$ 336	336
Land, road network	34	34
Construction in progress	246	218
Buildings and improvements	486	499
Improvements other than buildings	98	72
Equipment and vehicles	2,375	2,388
Infrastructure, road network	5,288	4,604
Total	<u>\$ 8,863</u>	<u>8,151</u>
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$ 253	
Bridge and Hungry Canyons construction projects	639	
Replacement of motor grader and secondary roads truck	301	
Conservation fish spawning bed	7	
County Sheriff and conservation vehicles	39	
Total	<u>\$ 1,239</u>	

Net assets of Adair County's governmental activities increased by approximately \$963,000, or 9.5%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The increase in net assets invested in capital assets is the result of capital contributions from the Iowa Department of Transportation for road projects.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, is \$64,000. Unrestricted net assets increased 160% from fiscal 2005, from a deficit of approximately \$107,000 at June 30, 2005 to a positive balance of \$64,000 at the end of this year, due primarily to a reduction of approximately \$147,000 in outstanding capital loan notes.

Changes in Net Assets of Governmental Activities (Expresssed in Thousands)		
	Year ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 258	437
Operating grants, contributions and restricted interest	2,959	2,806
Capital grants, contributions and restricted interest	806	3,150
General revenues:		
Property tax	2,807	2,747
Tax increment financing	197	178
Penalty and interest on property tax	42	37
State tax credits	199	175
Local option sales tax	288	-
Grants and contributions not restricted to specific purposes	21	10
Unrestricted investment earnings	125	73
Loss on disposal of capital assets	-	(18)
Other general revenues	9	21
Total revenues	<u>7,711</u>	<u>9,616</u>
Program expenses:		
Public safety and legal services	855	904
Physical health and social services	188	200
Mental health	639	622
County enviroment and education	281	250
Roads and transportation	3,889	3,349
Governmental services to residents	297	257
Administration	541	521
Non-program	-	13
Interest on long-term debt	58	64
Total expenses	<u>6,748</u>	<u>6,180</u>
Increase in net assets	963	3,436
Net assets beginning of year	10,092	6,656
Net assets end of year	<u>\$ 11,055</u>	<u>10,092</u>



The County increased property tax rates for 2006 by an average of 1.4 percent for urban residents and 3 percent for rural residents. This increase raised County property tax revenue by approximately \$60,000 in 2006. Based on slight decreases in the total assessed valuation and only a slight increase to the levy rate, property tax revenue is budgeted to decrease by \$38,500 next year.

The cost of all governmental activities this year was \$6.7 million compared to \$6.2 million last year, primarily due to additional road projects. Overall, the County's governmental activities revenues, including intergovernmental aid and fees for service, decreased in 2006 from approximately \$6,393,000 to \$4,023,000, principally due to receiving substantially more capital contributions from the Iowa Department of Transportation in the prior year. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$2,806,000 in taxes and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Adair County completed the year, its governmental funds reported a combined fund balance of \$3.1 million, a modest increase of \$73,000 above last year's total of \$3 million. The following are reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues exceeded expenditures. The ending fund balance increased approximately \$193,000 over the prior year to \$850,000. General fund expenditures decreased while revenues from property tax, interest and intergovernmental sources increased.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$639,000, a decrease of 3% from the prior year. The Mental Health Fund balance at year end decreased by approximately \$4,000 from the prior year. Clients continue to use waiver programs funded in part with state and federal dollars. Changes in the ARO program may affect future expenses.
- The Rural Services Fund ending fund balance decreased approximately \$11,000 from the prior year to approximately \$152,000. Operating transfers out increased approximately \$83,000 from the prior year, which contributed to the decrease in fund balance.
- Secondary Roads Fund expenditures increased by approximately \$750,000 over the prior year. The FY05 ending balance of approximately \$1.3 million decreased approximately \$371,000, or 27%. The FY06 ending balance was approximately \$992,000. Operating transfers in increased approximately \$65,000 over the prior year. The decrease in fund balance was attributed, in part, to the purchase of approximately \$100,000 of equipment, an increase of approximately \$307,000 for capital projects, higher fuel costs and an increase in the amount of rock applied to county roadways.

BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget three times. The first amendment was done in November 2005 and resulted in an increase in budgeted disbursements related to purchase of new voting equipment to comply with HAVA legislation, polling place accessibility improvements, a bridge replacement project and a Hungry Canyons project, DHS Cost Advisory Services, etc. Intergovernmental receipts increased to help defray the costs. The second amendment was completed in December 2005. This amendment was needed to honor the request of Grow Iowa to provide a match for economic development grant funds to be used for business expansion in the area. The third amendment, dated May 24, 2006, was needed to purchase a 2006 pickup for the Sheriff, a loan repayment to Wausau in Stuart, to pay for increased costs for substance abuse treatment and also reflected decreases in expenditures for the Treasurer due to the elimination of the driver's license examiner in his office. The budgets for

VA, General Relief and E911 were also reduced. Adjustments were made on revenue line items to more accurately reflect revenues to be received including larger than anticipated revenues from local option sales tax used to fund bridge replacement and renovation.

During the year, the following situations and actions impacted the County's budget:

- County paid health insurance premiums remained steady. In 2004 Adair County purchased a higher deductible health insurance plan for county employees. The County used reserves in the Employee Health Insurance Fund to fund the difference in the deductibles for employee health insurance with this process also continuing in FY06. The self funding of part of the health insurance deductible has helped to hold costs steady.
- The County deposited \$20,000 into the Employee Health Insurance Fund and paid out \$15,000 to County employees who had partially or totally met the self-funded deductible portion of the County's insurance policy during the fiscal year ended June 30, 2006. The County received a discount on premiums paid due to a favorable experience factor for premiums paid in FY06.
- Premiums paid for workman's compensation and other county insurance decreased approximately 2% from FY05 to FY06.
- The County continued to contract for general relief administration with MATURA. This has continued to be a successful partnership.
- The County reduced the number of voting precincts to five. This saved spending dollars for new equipment and funding workers at nine sites, but was not always popular with the voters.
- The Local DHS office was moved into the courthouse during the spring of 2005. This move has saved rental costs.
- Elected officials received three percent salary increases, which were also passed down to deputies in the offices of elected officials. Employees not covered by union contracts also received 3% increases.
- The union contracts provided for a 2% increase, effective July 1, 2005, with an additional 2% increase paid January 1, 2006 to the Sheriff's Dispatchers. Secondary Roads Department union workers received a 3% increase on July 1, 2005.
- The mileage reimbursement rate for county employees was 32 cents per mile for the first half of the year and increased to 35 cents per mile, or by 9%, in January, which was still below the federal reimbursement rate, which ranged from 40.5 cents per mile to 48.5 cents per mile during the fiscal year.
- Property valuations used to compute tax rates decreased \$415,000 in rural areas and increased \$924,000 in urban areas.
- Interest income increased from approximately \$77,000 in FY05 to \$136,000 in FY06. The average interest rate received in FY05 was 2.11%. The average interest rate received in FY06 was 3.79%.
- Rural County voters approved a local option tax for the County effective July 1, 2005. The Board of Supervisors approved the use of the estimated receipts of \$226,000 for bridge maintenance and replacement. Actual revenue received from the tax was over \$288,000, which will provide even more funding for bridge repair and replacement.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, Adair County had approximately \$12 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. Major additions included \$253,000 contributed by the Iowa DOT, bridge and Hungry Canyon projects, replacement of a motor grader and secondary road truck, a conservation fish spawning bed and vehicles for the Sheriff and Conservation Departments totaling close to \$1.2 million dollars.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2006	2005
Land	\$ 336	336
Land, road network	34	34
Construction in progress	246	218
Buildings and improvements	486	499
Improvements other than buildings	98	72
Equipment and vehicles	2,375	2,388
Infrastructure, road network	5,288	4,604
Total	<u>\$ 8,863</u>	<u>8,151</u>
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$ 253	
Bridge and Hungry Canyons construction projects	639	
Replacement of motor grader and secondary roads truck	301	
Conservation fish spawning bed	7	
County Sheriff and conservation vehicles	39	
Total	<u>\$ 1,239</u>	

The County had depreciation expense of \$458,796 in FY06 and total accumulated depreciation of approximately \$3.2 million at June 30, 2006. The County's fiscal year 2006 capital budget included \$825,000 for capital projects, principally for roadway construction. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2006, Adair County had approximately \$845,000 in capital loan notes outstanding, a decrease of approximately \$147,000, or 15%, from June 30, 2005.

The Constitution of the State of Iowa limits the amount of debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Adair County's outstanding debt is significantly below its constitutional debt limit of \$23 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Adair County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and the fees charged for various County activities. One of those factors is the economy. Unemployment in the County now stands at 3 percent versus 3.3 percent a year ago. This compares with the State's unemployment rate of 3.6 percent and the national rate of 4.6 percent.

The local option sales tax will generate funds to rebuild county bridges. Adair County has a very high number of bridges, with many in need of repair or replacement. The local option sales tax will remain in effect for six more years. It has been estimated the County will receive \$302,000 from the sales tax for the 12 month period beginning August 31, 2006.

The County, with the help of federal dollars, purchased new voting equipment in FY06. It will be determined within the next year or two what affect the use of election equipment will have on the election budget.

The County Treasurer will continue to perform the duties of driver's license examiner, a duty he began on July 1, 2005. This will continue to save local tax dollars.

Fuel costs continued to increase. The budgets of the secondary roads department and the county sheriff were the most affected.

The County received a discount on health insurance premiums for the second fiscal year in a row. The health insurance premium actually decreased slightly from FY06 to FY07.

The County Sheriff and the County Board of Supervisors decided to purchase pickups to replace at least two cars used by the County Sheriff's department. The resale value of the vehicles was a major consideration in the change.

The second year of the union contract will provide a 3.2% increase to the Sheriff's Dispatchers and a 3% increase to secondary roads department workers, effective July 1, 2006.

Elected officials, deputies and non-union employees will receive pay increases of 4%.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$7.7 million, a decrease of 11 percent from the final 2006 budget. Projected property tax revenues decreased \$61,000.

Budgeted disbursements are expected to increase by approximately \$186,000. The largest increases are noted in the roads and transportation function, although capital project disbursements are projected to be down \$382,000. The County has added no major new programs or initiatives to the 2007 budget. If these estimates are realized, the County's budgetary operating balance is expected to decrease \$350,000 by the close of 2007.

Talks with other local entities began in July of 2006 to consider what steps to take to fund the required improvements needed at the local landfill. The landfill may issue revenue bonds or the County may issue general obligation bonds to fund the project.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Adair County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Adair County Auditor's Office, 400 Public Square, Greenfield, Iowa 50849.

Basic Financial Statements

Exhibit A

Adair County
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 3,165,033
Receivables:	
Property tax:	
Delinquent	4,784
Succeeding year	2,768,000
Succeeding year tax increment financing	239,000
Interest and penalty on property tax	12,428
Accounts	1,587
Accrued interest	8,111
Due from other governments	226,201
Inventories	169,481
Prepaid items	165,944
Capital assets (net of accumulated depreciation)	8,862,841
Total assets	<u>15,623,410</u>
Liabilities	
Accounts payable	458,271
Accrued interest payable	4,796
Salaries and benefits payable	39,685
Due to other governments	98,029
Deferred revenue:	
Succeeding year property tax	2,768,000
Succeeding year tax increment financing	239,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	91,000
Compensated absences	82,356
Portion due or payable after one year:	
Capital loan notes	753,717
Compensated absences	33,954
Total liabilities	<u>4,568,808</u>
Net Assets	
Invested in capital assets	8,862,841
Restricted for:	
Supplemental levy purposes	222,621
Mental health purposes	264,236
Secondary roads purposes	916,499
Other purposes	724,417
Unrestricted	63,988
Total net assets	<u><u>\$ 11,054,602</u></u>

See notes to financial statements.

Adair County
Statement of Activities
Year ended June 30, 2006

	Program Revenues				
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Service			
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 855,218	35,882	18,885	-	(800,451)
Physical health and social services	187,905	7,183	53,092	-	(127,630)
Mental health	638,628	658	324,415	-	(313,555)
County environment and education	281,005	22,955	50,650	-	(207,400)
Roads and transportation	3,888,685	27,380	2,382,464	805,937	(672,904)
Governmental services to residents	297,057	150,040	80,395	-	(66,622)
Administration	541,639	13,645	1,604	-	(526,390)
Interest on long-term debt	57,675	-	47,713	-	(9,962)
Total	\$6,747,812	257,743	2,959,218	805,937	(2,724,914)
General Revenues:					
Property and other county tax levied for general purposes					2,806,449
Tax increment financing					197,312
Penalty and interest on property tax					41,881
State tax credits					199,227
Local option sales tax					288,283
Grants and contributions not restricted to specific purpose					20,842
Unrestricted investment earnings					124,749
Miscellaneous					9,226
Total general revenues					3,687,969
Change in net assets					963,055
Net assets beginning of year					10,091,547
Net assets end of year					\$ 11,054,602

See notes to financial statements.

Adair County
Balance Sheet
Governmental Funds

June 30, 2006

		Special Revenue	
	General	Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 800,823	340,913	154,849
Receivables:			
Property tax:			
Delinquent	3,829	712	243
Succeeding year	1,555,000	289,000	924,000
Interest and penalty on property tax	12,428	-	-
Succeeding year tax increment financing	-	-	-
Accounts	797	541	215
Accrued interest	7,281	-	-
Due from other funds	-	-	-
Due from other governments	12,088	-	-
Inventories	-	-	-
Prepaid items	83,837	-	241
Total assets	\$ 2,476,083	631,166	1,079,548
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 16,643	8,889	228
Salaries and benefits payable	10,915	166	2,613
Due to other funds	3,268	-	-
Due to other governments	26,054	68,875	-
Deferred revenue:			
Succeeding year property tax	1,555,000	289,000	924,000
Succeeding year tax increment financing	-	-	-
Other	14,580	558	243
Total liabilities	1,626,460	367,488	927,084
Fund balances:			
Reserved for:			
Supplemental levy purposes	222,602	-	-
Debt service	-	-	-
Unreserved, designated for:			
Courthouse repairs and other capital projects	22,000	-	-
Three-mile structure repairs	-	-	10,000
Ambulance and equipment replacement	10,000	-	-
Unreserved, undesignated, reported in:			
General fund	595,021	-	-
Special revenue funds	-	263,678	142,464
Total fund balances	849,623	263,678	152,464
Total liabilities and fund balances	\$ 2,476,083	631,166	1,079,548

See notes to financial statements.

Secondary Roads	Nonmajor Special Revenue	Total
999,698	834,830	3,131,113
-	-	4,784
-	-	2,768,000
-	-	12,428
-	239,000	239,000
34	-	1,587
-	830	8,111
3,268	-	3,268
190,126	23,987	226,201
169,481	-	169,481
81,866	-	165,944
1,444,473	1,098,647	6,729,917
423,717	7,715	457,192
25,991	-	39,685
-	-	3,268
3,100	-	98,029
-	-	2,768,000
-	239,000	239,000
-	-	15,381
452,808	246,715	3,620,555
-	-	222,602
-	127,515	127,515
-	-	22,000
-	-	10,000
-	-	10,000
-	-	595,021
991,665	724,417	2,122,224
991,665	851,932	3,109,362
1,444,473	1,098,647	6,729,917

Adair County

Adair County

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets

June 30, 2006

Total governmental fund balances (page 19) \$ 3,109,362

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$12,094,839 and the accumulated depreciation is \$3,231,998. 8,862,841

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 15,381

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 32,841

Long-term liabilities, including capital loan notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (965,823)

Net assets of governmental activities (page 16) \$ 11,054,602

See notes to financial statements.

Adair County
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

		Special Revenue	
	General	Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 1,572,240	288,909	950,499
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Interest and penalty on property tax	30,144	-	-
Intergovernmental	283,272	345,486	66,931
Licenses and permits	-	-	7,183
Charges for service	191,588	-	-
Use of money and property	116,502	-	-
Miscellaneous	11,933	675	1,365
Total revenues	2,205,679	635,070	1,025,978
Expenditures:			
Operating:			
Public safety and legal services	816,304	-	22,000
Physical health and social services	172,623	-	15,282
Mental health	-	638,628	-
County environment and education	196,847	-	85,284
Roads and transportation	-	-	131,895
Governmental services to residents	260,456	-	2,181
Administration	532,093	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	1,978,323	638,628	256,642
Excess (deficiency) of revenues over (under) expenditures	227,356	(3,558)	769,336
Other financing sources (uses):			
Sale of capital assets	4,500	-	-
Operating transfers in	-	-	-
Operating transfers out	(38,500)	-	(779,948)
Total other financing sources (uses)	(34,000)	-	(779,948)
Net change in fund balances	193,356	(3,558)	(10,612)
Fund balances beginning of year	656,267	267,236	163,076
Fund balances end of year	\$ 849,623	263,678	152,464

See notes to financial statements.

Secondary Roads	Nonmajor Special Revenue	Total
-	-	2,811,648
-	197,312	197,312
190,804	97,479	288,283
-	-	30,144
2,930,411	72,004	3,698,104
1,590	-	8,773
690	2,447	194,725
-	29,075	145,577
27,807	14,402	56,182
3,151,302	412,719	7,430,748
-	-	838,304
-	-	187,905
-	-	638,628
-	-	282,131
3,558,076	-	3,689,971
-	20,886	283,523
-	-	532,093
-	204,537	204,537
581,878	125,424	707,302
4,139,954	350,847	7,364,394
(988,652)	61,872	66,354
2,150	-	6,650
805,948	203,304	1,009,252
(190,804)	-	(1,009,252)
617,294	203,304	6,650
(371,358)	265,176	73,004
1,363,023	586,756	3,036,358
991,665	851,932	3,109,362

Adair County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement
of Activities

Year ended June 30, 2006

Net change in fund balances - Total governmental funds (page 23) \$ 73,004

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 952,275	
Capital assets contributed by the Iowa Department of Transportation	252,540	
Depreciation expense	(458,796)	746,019

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources.		(34,178)
--	--	----------

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	(4,314)	
Other	10,597	6,283

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		146,723
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	16,708	
Interest on long-term debt	139	16,847

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

8,357

Change in net assets of governmental activities (page 17)

\$ 963,055

See notes to financial statements.

Adair County
Statement of Net Assets
Proprietary Fund

June 30, 2006

	<u>Internal Service - Employee Health Insurance</u>
Assets	
Cash and cash equivalents	\$ 33,920
Liabilities	
Accounts payable	<u>1,079</u>
Net Assets	
Unrestricted	<u><u>\$ 32,841</u></u>

See notes to financial statements.

Exhibit H

Adair County
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2006

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
Contributions from employer		\$ 20,167
Operating expenses:		
Medical claims	\$ 11,749	
Administrative fees	<u>1,190</u>	<u>12,939</u>
Operating income		7,228
Non-operating revenues:		
Interest income		<u>1,129</u>
Net income		8,357
Net assets beginning of year		<u>24,484</u>
Net assets end of year		<u><u>\$ 32,841</u></u>

See notes to financial statements.

Adair County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2006

	<u>Internal Service - Employee Health Insurance</u>
Cash flows used for operating activities:	
Cash received from employer	\$ 20,167
Cash paid to suppliers for services	(15,225)
Net cash provided by operating activities	<u>4,942</u>
Cash flows from investing activities:	
Interest on investments	<u>1,187</u>
Net increase in cash and cash equivalents	6,129
Cash and cash equivalents beginning of year	<u>27,791</u>
Cash and cash equivalents end of year	<u><u>\$ 33,920</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 7,228
Adjustment to reconcile operating income to net cash provided for operating activities:	
(Decrease) in accounts payable	<u>(2,286)</u>
Net cash provided by operating activities	<u><u>\$ 4,942</u></u>

See notes to financial statements.

Adair County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Assets

Cash and pooled investments:

County Treasurer	\$ 366,088
Other county officials	7,618

Receivables:

Property tax:

Delinquent	25,825
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Succeeding year	7,297,000
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Special assessments	41,465
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Prepaid expense	1,140
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Total assets	<u>7,739,136</u>
---------------------	------------------

Liabilities

Accounts payable	210
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Salaries and benefits payable	413
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Due to other governments	7,716,367
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Trusts payable	10,761
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Compensated absences	11,385
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Total liabilities	<u>7,739,136</u>
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Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

Adair County
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

Adair County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Adair County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, Three Mile Reservoir Agency, Adair County Sanitary Landfill and Recycling Center, County Emergency Management Commission and South Central Iowa Regional E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to various funds for health plan costs. Operating expenses for Internal Service Funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 65,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Land improvements	10 - 50
Infrastructure	10 - 65
Equipment	3 - 20
Vehicles	3 - 15

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Accumulated sick leave is generally paid at 30%, not to exceed 90 days, upon retirement. Certain employees are annually paid for 20% of sick leave hours in excess of 90 days. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets – The net assets of the Employee Health Insurance Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service function and departmental disbursements exceeded the amounts appropriated in the Adair/Stuart Urban Renewal Rail Spur.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,278 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the County.

Credit risk. The investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk. The County places no limit on the amount that may be invested in any one issuer.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue: Secondary Roads	General	\$ 3,268

This balance results from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	General	\$ 32,250
	Special Revenue: Rural Services	773,698
Local Option Sales Tax	Special Revenue: Secondary Roads	190,804
SIRWA Grid	General	6,250
	Special Revenue: Rural Services	6,250
Total		\$ 1,009,252

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 336,067	-	-	336,067
Land, road network	34,220	-	-	34,220
Construction in progress	217,661	899,010	870,809	245,862
Total capital assets not being depreciated	587,948	899,010	870,809	616,149
Capital assets being depreciated:				
Buildings	653,380	-	-	653,380
Improvements other than buildings	142,178	32,323	-	174,501
Equipment and vehicles	5,049,702	339,806	238,410	5,151,098
Infrastructure, road network	4,661,225	838,486	-	5,499,711
Total capital assets being depreciated	10,506,485	1,210,615	238,410	11,478,690
Less accumulated depreciation for:				
Buildings	153,860	13,983	-	167,843
Improvements other than buildings	70,597	5,511	-	76,108
Equipment and vehicles	2,661,761	284,264	170,231	2,775,794
Infrastructure, road network	57,215	155,038	-	212,253
Total accumulated depreciation	2,943,433	458,796	170,231	3,231,998
Total capital assets being depreciated, net	7,563,052	751,819	68,179	8,246,692
Governmental activities capital assets, net	\$ 8,151,000	1,650,829	938,988	8,862,841

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 28,914
County environment and education	19,242
Roads and transportation	402,262
Administration	8,378
Total depreciation expense - governmental activities	<u>\$ 458,796</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$ 26,054
Special Revenue:		
Mental Health	Services	68,875
Secondary Roads	Services	3,100
		<u>71,975</u>
Total for governmental funds		<u>\$ 98,029</u>
Agency:		
County Assessor	Collections	\$ 180,537
Schools		4,604,850
Community Colleges		217,077
Corporations		1,220,457
County Hospital		975,003
Auto License and Use Tax		147,822
All other		370,621
Total for agency funds		<u>\$ 7,716,367</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Capital Loan Notes Payable	Compensated Absences	Total
Balance beginning of year	\$ 991,440	133,018	1,124,458
Increases	-	99,398	99,398
Decreases	146,723	116,106	262,829
Balance end of year	<u>\$ 844,717</u>	<u>116,310</u>	<u>961,027</u>
Due within one year	<u>\$ 91,000</u>	<u>82,356</u>	<u>173,356</u>

Capital Loan Notes Payable

On November 25, 1998, the County issued \$600,000 of urban renewal revenue capital loan notes. The notes bear interest at 5.25 percent per annum and mature in varying annual amounts ranging from \$31,000 to \$51,000, with final maturity in June 2011. These notes were used to plan, undertake and carry out an urban renewal project, including the purchase of water, sewer and street paving improvements.

On May 1, 2001, the County issued \$630,000 of urban renewal revenue capital loan notes. The notes bear interest at 6 percent per annum and mature in varying annual amounts ranging from \$50,000 to \$90,000, with final maturity in June 2013. The note proceeds were used to provide a grant to the Iowa Interstate Railroad for construction of a rail spur line to serve the I-80 industrial business park.

On January 18, 2002, the County issued a \$250,000 subordinate urban renewal revenue capital loan note (subordinate note). The note bears interest at 6 percent per annum with final maturity on June 1, 2013. The note proceeds were used to provide additional funds to the Iowa Interstate Railroad for construction of a rail spur line to serve the I-80 industrial business park.

A formal repayment schedule has not been established for the subordinate note. Interest is due and payable from allocable subordinate tax increment financing (TIF) revenues annually until the note matures on June 1, 2013. Allocable revenues are those TIF revenues remaining annually after principal and interest payments and required sinking and reserve transfers on the November 1998 and May 2001 notes are satisfied. During the year ended June 30, 2006, interest of \$11,563 and principal of \$45,723 were paid on the note. The balance remaining on the note at June 30, 2006 was \$192,717.

Details of the County's June 30, 2006 capital loan note indebtedness for which formal repayment schedules have been established are as follows:

Year Ending June 30,	Urban Renewal Revenue Notes November 25, 1998			Urban Renewal Revenue Notes May 1, 2001			Total		
	Interest			Interest			Principal	Interest	Total
	Rate	Principal	Interest	Rate	Principal	Interest			
2007	5.25%	31,000	9,030	6.00%	55,000	28,800	86,000	37,830	123,830
2008	5.25	33,000	3,701	6.00	60,000	25,500	93,000	29,201	122,201
2009	5.25	34,000	5,670	6.00	60,000	21,900	94,000	27,570	121,570
2010	5.25	36,000	3,885	6.00	65,000	18,300	101,000	22,185	123,185
2011	5.25	38,000	1,995	6.00	70,000	12,300	108,000	14,295	122,295
2012-2013		-	-	6.00	170,000	15,600	170,000	15,600	185,600
Total		\$ 172,000	24,281		\$ 480,000	122,400	\$ 652,000	146,681	798,681

During the year ended June 30, 2006, the County retired \$51,000 of urban renewal notes dated November 25, 1998 and \$50,000 of urban renewal notes dated May 1, 2001.

The urban renewal notes are payable solely from the taxes paid into the Special Revenue, Urban Renewal Fund pursuant to Chapter 403.19 of the Code of Iowa and other funds derived or held in connection with the projects related to these note issues. The County's urban renewal plan dated February 25, 1998 includes a provision for the City of Stuart to pay the County \$52,500 for the first 5 years of the plan and \$22,500 for the next three years to help defray the cost of the urban renewal projects. Also, in February 2002, the County entered into a 28E agreement with the City of Stuart in which the City agreed to provide \$14,000 annually to the County to help defray the cost of principal and interest on the notes. The notes are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

The resolutions providing for the issuance of the urban renewal revenue capital loan notes include the following provisions:

- (1) Sufficient annual transfers shall be made to urban renewal project sinking funds for the purpose of making the note principal and interest payments when due.
- (2) Sufficient monthly transfers shall be made to urban renewal reserve funds until specific minimum balances have been accumulated. These funds are restricted for the purpose of paying note principal and interest payments due when insufficient money is available in the sinking funds.
- (3) Surplus revenues attributable to the subordinate project area shall be deposited to a sinking fund for the purpose of making subordinate note principal and interest payments.

(8) Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$123,630, \$119,612 and \$117,213, respectively, equal to the required contributions for each year.

(9) Risk Management

Adair County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 531 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2006 were \$109,080.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Employee Health Insurance Plan

The Internal Service, Employee Health Insurance Fund was established to account for the partial self funding of the County's health insurance deductibles. The plan is funded by County contributions and is administered by the County. The County assumes liability for claims up to the individual deduction limitations of \$1,000 and \$2,000 for single and family coverage, respectively.

Contributions to the Employee Health Insurance Fund are recorded as expenditures from the operating funds. The County's contribution for the year ended June 30, 2006 was \$20,167.

Amounts payable from the Employee Health Insurance Fund at June 30, 2006 total \$1,079, which is for incurred but not reported (IBNR) and reported but not paid claims. The County was not required to obtain an actuarial report for the period ended June 30, 2006 since its plan qualifies as a "mini plan." A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 3,365
Incurred claims (including claims incurred but not reported at June 30, 2006)	9,463
Payments on claims during the fiscal year	(11,749)
Unpaid claims end of year	<u>\$ 1,079</u>

Required Supplementary Information

Adair County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2006

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property and other county tax	\$ 3,277,790	3,129,682	3,298,278	(20,488)
Interest and penalty on property tax	28,467	32,000	32,000	(3,533)
Intergovernmental	3,917,673	3,226,616	3,889,312	28,361
Licenses and permits	9,548	7,600	7,600	1,948
Charges for service	197,119	170,491	179,219	17,900
Use of money and property	176,326	78,382	108,423	67,903
Miscellaneous	28,349	19,190	22,770	5,579
Total receipts	7,635,272	6,663,961	7,537,602	97,670
Disbursements:				
Public safety and legal services	830,851	800,017	851,459	20,608
Physical health and social services	198,557	223,206	236,566	38,009
Mental health	669,126	679,589	679,589	10,463
County environment and education	287,469	282,932	288,072	603
Roads and transportation	3,380,991	3,435,453	3,435,453	54,462
Governmental services to residents	275,027	300,297	324,789	49,762
Administration	519,694	548,899	547,691	27,997
Debt service	204,537	174,508	190,231	(14,306)
Capital projects	795,178	325,000	825,000	29,822
Total disbursements	7,161,430	6,769,901	7,378,850	217,420
Excess (deficiency) of receipts over (under) disbursements	473,842	(105,940)	158,752	315,090
Other financing sources, net	6,650	4,000	4,000	2,650
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	480,492	(101,940)	162,752	317,740
Balance beginning of year	2,650,621	2,418,044	2,627,967	22,654
Balance end of year	\$ 3,131,113	2,316,104	2,790,719	340,394

See accompanying independent auditor's report.

Adair County
Budgetary Comparison Schedule - Budget to GAAP Reconciliation
Required Supplementary Information
Year ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 7,635,272	(204,524)	7,430,748
Expenditures	7,161,430	202,964	7,364,394
Net	473,842	(407,488)	66,354
Other financing sources, net	6,650	-	6,650
Beginning fund balances	2,650,621	385,737	3,036,358
Ending fund balances	\$ 3,131,113	(21,751)	3,109,362

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$608,949. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service function. Departmental disbursements exceeded the amount appropriated in the Adair/Stuart Urban Renewal Rail Spur.

Other Supplementary Information

Adair County
Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Assets			
Cash and pooled investments	\$ 114,182	3,615	2,818
Receivables:			
Succeeding year tax increment financing	-	-	-
Accrued interest	300	-	-
Due from other governments	4,689	-	-
Total assets	\$ 119,171	3,615	2,818
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ -	-	-
Deferred revenue:			
Succeeding year tax increment financing	-	-	-
Total liabilities	-	-	-
Fund equity:			
Fund balances:			
Reserved for debt service	-	-	-
Unreserved, undesignated	119,171	3,615	2,818
Total fund equity	119,171	3,615	2,818
Total liabilities and fund equity	\$ 119,171	3,615	2,818

See accompanying independent auditor's report.

Special Law Enforcement	Urban Renewal	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisition Trust	Total
4,021	264,139	163,398	12,673	269,984	834,830
-	239,000	-	-	-	239,000
-	-	-	-	530	830
-	-	19,298	-	-	23,987
4,021	503,139	182,696	12,673	270,514	1,098,647
-	-	7,715	-	-	7,715
-	239,000	-	-	-	239,000
-	239,000	7,715	-	-	246,715
-	127,515	-	-	-	127,515
4,021	136,624	174,981	12,673	270,514	724,417
4,021	264,139	174,981	12,673	270,514	851,932
4,021	503,139	182,696	12,673	270,514	1,098,647

Adair County
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Resource Enhance- ment and Protection	County Recorder's Records Management	County Recorder's Electronic Transaction Fee
Revenues:			
Tax increment financing	\$ -	-	-
Local option sales tax	-	-	-
Intergovernmental	9,003	-	-
Charges for service	-	2,377	-
Use of money and property	4,252	305	60
Miscellaneous	-	-	-
Total revenues	13,255	2,682	60
Expenditures:			
Operating:			
Governmental services to residents	-	7,509	13,377
Debt service	-	-	-
Capital projects	1,292	-	-
Total expenditures	1,292	7,509	13,377
Excess (deficiency) of revenues over (under) expenditures	11,963	(4,827)	(13,317)
Other financing sources:			
Operating transfers in	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	11,963	(4,827)	(13,317)
Fund balances beginning of year	107,208	8,442	13,317
Fund balances end of year	\$ 119,171	3,615	-

See accompanying independent auditor's report.

Sheriff's Reserve	Special Law Enforcement	Urban Renewal	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisition Trust	Total
-	-	197,312	-	-	-	197,312
-	-	-	97,479	-	-	97,479
1,165	-	37,239	-	-	24,597	72,004
-	-	-	-	-	70	2,447
49	139	11,214	2,942	173	9,941	29,075
1,604	-	-	-	-	12,798	14,402
2,818	139	245,765	100,421	173	47,406	412,719
-	-	-	-	-	-	20,886
-	-	204,537	-	-	-	204,537
-	-	-	116,244	-	7,888	125,424
-	-	204,537	116,244	-	7,888	350,847
2,818	139	41,228	(15,823)	173	39,518	61,872
-	-	-	190,804	12,500	-	203,304
2,818	139	41,228	174,981	12,673	39,518	265,176
-	3,882	222,911	-	-	230,996	586,756
2,818	4,021	264,139	174,981	12,673	270,514	851,932

Adair County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,951	50,268	94,807
Other County officials	7,618	-	-	-
Receivables:				
Property tax:				
Delinquent	-	235	347	11,043
Succeeding year	-	95,000	141,000	4,499,000
Special assessments	-	-	-	-
Prepaid expense	-	-	900	-
Total assets	\$ 7,618	97,186	192,515	4,604,850
Liabilities				
Accounts payable	\$ -	-	180	-
Salaries and benefits payable	-	-	413	-
Due to other governments	7,618	97,186	180,537	4,604,850
Trusts payable	-	-	-	-
Compensated absences	-	-	11,385	-
Total liabilities	\$ 7,618	97,186	192,515	4,604,850

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	County Hospital	Auto License and Use Tax	Other	Total
4,555	25,436	3,927	16,650	147,822	20,672	366,088
-	-	-	-	-	-	7,618
522	11,021	301	2,353	-	3	25,825
212,000	1,184,000	209,000	956,000	-	1,000	7,297,000
-	-	-	-	-	41,465	41,465
-	-	-	-	-	240	1,140
217,077	1,220,457	213,228	975,003	147,822	63,380	7,739,136
-	-	-	-	-	30	210
-	-	-	-	-	-	413
217,077	1,220,457	213,228	975,003	147,822	52,589	7,716,367
-	-	-	-	-	10,761	10,761
-	-	-	-	-	-	11,385
217,077	1,220,457	213,228	975,003	147,822	63,380	7,739,136

Adair County
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 5,754	95,393	188,868	4,626,894
Additions:				
Property and other county tax	-	93,664	139,091	4,460,831
State tax credits	-	6,487	9,915	315,751
Office fees and collections	164,730	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	59,947	-	-	-
Miscellaneous	-	-	933	-
Total additions	224,677	100,151	149,939	4,776,582
Deductions:				
Agency remittances:				
To other funds	88,533	-	-	-
To other governments	74,334	98,358	146,292	4,798,626
Trusts paid out	59,946	-	-	-
Total deductions	222,813	98,358	146,292	4,798,626
Balances end of year	\$ 7,618	97,186	192,515	4,604,850

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	County Hospital	Auto License and Use Tax	Other	Total
222,434	1,201,546	206,737	812,636	163,939	77,423	7,601,624
209,063	1,574,252	205,909	946,669	-	1,295	7,630,774
15,116	88,499	14,333	55,365	-	92	505,558
-	-	-	-	-	-	164,730
-	-	-	-	-	2,585	2,585
-	-	-	-	2,036,950	-	2,036,950
-	-	-	-	-	35,923	35,923
-	-	-	-	-	85,442	145,389
-	-	-	-	-	6,628	7,561
224,179	1,662,751	220,242	1,002,034	2,036,950	131,965	10,529,470
-	-	-	-	56,879	-	145,412
229,536	1,643,840	213,751	839,667	1,996,188	143,739	10,184,331
-	-	-	-	-	2,269	62,215
229,536	1,643,840	213,751	839,667	2,053,067	146,008	10,391,958
217,077	1,220,457	213,228	975,003	147,822	63,380	7,739,136

Adair County

Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

For the Last Seven Years

	2006	2005	2004
Revenues:			
Property and other county tax	\$ 2,811,648	2,759,307	2,529,614
Tax increment financing	197,312	177,752	131,004
Local option sales tax	288,283	-	-
Interest and penalty on property tax	30,144	36,769	30,289
Intergovernmental	3,698,104	3,260,303	3,165,275
Licenses and permits	8,773	7,082	9,030
Charges for service	194,725	189,774	224,647
Use of money and property	145,577	86,316	111,041
Miscellaneous	56,182	59,825	51,068
Total	\$ 7,430,748	6,577,128	6,251,968
Expenditures:			
Operating:			
Public safety and legal services	\$ 838,304	886,203	819,585
Physical health and social services	187,905	199,768	246,061
Mental health	638,628	622,373	638,398
County environment and education	282,131	274,487	304,014
Roads and transportation	3,689,971	3,229,715	3,471,194
Governmental services to residents	283,523	256,920	220,558
Administration	532,093	512,160	517,903
Debt service	204,537	166,302	187,774
Capital projects	707,302	299,472	109,285
Total	\$ 7,364,394	6,447,400	6,514,772

See accompanying independent auditor's report.

Modified Accrual Basis			
2003	2002	2001	2000
2,406,413	2,302,360	1,811,236	1,696,992
93,929	63,977	46,175	-
-	-	-	-
30,345	30,068	31,858	25,741
3,215,237	3,365,886	3,235,033	3,826,423
7,572	6,717	6,580	4,697
167,700	159,442	150,152	169,383
148,491	222,016	266,385	285,426
36,438	26,973	43,170	34,773
6,106,125	6,177,439	5,590,589	6,043,435
764,704	757,693	733,758	664,811
226,891	246,771	268,417	239,313
711,682	712,624	664,716	613,151
328,902	368,066	366,393	375,773
3,429,358	3,306,388	3,366,660	3,211,974
237,891	239,767	237,776	201,451
492,307	494,149	421,497	468,338
131,275	134,048	93,562	53,875
296,527	706,042	66,398	567,190
6,619,537	6,965,548	6,219,177	6,395,876

Schedule 6

Adair County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 308
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for Food Stamp Program	10.561		1,193
Hungry Canyons Alliance:			
Soil and Water Conservation	10.902	L-IN0453--73-01	4,853
Soil and Water Conservation	10.902	L-IN1053--73-01	122,085
Soil and Water Conservation	10.902	L-IN1963--73-01	62,459
Soil and Water Conservation	10.902	L-IN2253--73-01	100,000
			<u>289,397</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	C00(65)-8J-01	127,029
U.S. Election Assistance Commission:			
Iowa Secretary of State:			
Help America Vote Act Requirements Payments	90.401	06-HAVA-01-100	71,638
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		1,440
Child Care Mandatory and Matching Funds			
of the Child Care and Development Fund	93.596		347
Foster Care - Title IV-E	93.658		740
Adoption Assistance	93.659		186
Medical Assistance Program	93.778		1,880
Social Services Block Grant	93.667		838
Social Services Block Grant	93.667		30,306
			<u>31,144</u>
Iowa Department of Public Health:			
Public Health and Social Services Emergency Fund	93.003		7,577

Adair County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Secretary of State:			
Voting Access for Individuals with Disabilities- Grants to States	93.617	05-HAVA-01-001	438
Voting Access for Individuals with Disabilities- Grants to States	93.617	06-HAVA-01-003	1,151
Voting Access for Individuals with Disabilities- Grants to States	93.617	06-HAVA-01-004	2,077
Voting Access for Individuals with Disabilities- Grants to States	93.617	06-HAVA-01-002	1,390
Voting Access for Individuals with Disabilities- Grants to States	93.617	06-HAVA-01-002	363
			<u>5,419</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
State Domestic Preparedness Equipment Support Program	97.004	HSGP	66,665
State Domestic Preparedness Equipment Support Program	97.004	SHSGP I & II	18,542
			<u>85,207</u>
Total indirect			<u>623,197</u>
Total			<u>\$ 623,505</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Adair County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Adair County



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

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Independent Auditor's Report on
Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Officials of Adair County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Adair County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Adair County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

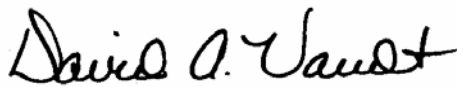
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.


Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Adair County and other parties to whom Adair County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Adair County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2006

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

Adair County



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

To the Officials of Adair County:

Compliance

We have audited the compliance of Adair County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Adair County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Adair County's management. Our responsibility is to express an opinion on Adair County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Adair County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Adair County's compliance with those requirements.

In our opinion, Adair County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

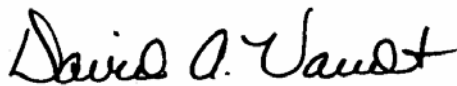
Internal Control Over Compliance

The management of Adair County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Adair County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

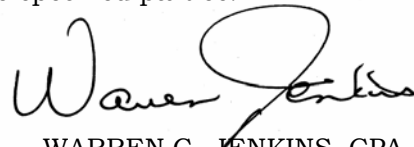
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Adair County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described as items III-A-06 and III-B-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Adair County and other parties to whom Adair County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2006

Adair County
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 10.902 – Soil and Water Conservation.
 - CFDA Number 90.401 – Help America Vote Act Requirements Payments.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Adair County did not qualify as a low-risk auditee.

Adair County
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. In the County Treasurer's Office, bank accounts were not reconciled or reviewed by an independent person who does not sign checks, handle or record cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the County Treasurer should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response – The Treasurer will review procedures in December 2006 to segregate duties.

Conclusion – Response accepted.

II-B-06 Information Systems – The following weaknesses in the County's computer based systems were noted:

- Computer passwords are shared. Also, there is no written policy prohibiting the sharing of passwords.
- User profiles are not reviewed and user IDs are not changed after an employee changes duties.
- Users are not restricted to programs for which they have legitimate need.

Recommendation – The County should develop written policies addressing the above items in order to improve the County's control over computer based systems.

Response – We will work towards compliance.

Conclusion – Response accepted.

Adair County
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

II-C-06 Receipts – Voided receipts and related documentation were not always retained.

Recommendation – Voided receipts and related supporting documentation should always be retained.

Response – We will document the reason for truly voided receipts on the voided receipt slip and maintain all voids and any other related documentation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Adair County
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 39.011: Election Reform Payments
Federal Award Year: 2006
U.S. General Services Administration
Passed through the Iowa Secretary of State

CFDA Number 10.902: Soil and Water Conservation
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Hungry Canyons Alliance

III-A-06 Segregation of Duties over Federal Revenues – The County Treasurer did not properly segregate custody, record-keeping and reconciling functions for revenues, including those related to federal programs. See item II-A-06.

CFDA Number 39.011: Election Reform Payments
Federal Award Year: 2006
U.S. General Services Administration
Passed through the Iowa Secretary of State

III-B-06 Cash Management of Federal Revenues – Per the grant agreements, federal funds are to be received by the County on a reimbursement basis. Federal funds were received in advance of expenditures for the Election Reform Payments Grant.

Recommendation - The County should review grant agreements to ensure cash management requirements are being followed.

Response – The County will review the agreements more closely in the future. The final expenditures will be incurred by February 28, 2007.

Conclusion – Response accepted.

Adair County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the debt service function. The Adair/Stuart Urban Renewal Rail Spur department exceeded the amount appropriated.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department, as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will monitor more closely in the future.

Conclusion – Response accepted.

- IV-B-06 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- IV-C-06 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

- IV-D-06 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Redman Construction, Brother of the Deputy Treasurer	Installation of culverts & tile lines	\$ 23,100

The transactions with Redman Construction do not appear to represent a conflict of interest in accordance with Chapter 331.342(4) of the Code of Iowa since the contract was entered into through competitive bidding.

- IV-E-06 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to insure the coverage is adequate for current operations.

- IV-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

- IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

Adair County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-H-06 Resource Enhancement and Protection Certification – The County dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-I-06 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.

The County Extension Office is required to publish a summary of receipts and disbursements for the fiscal year. The annual report was published. However, several of the amounts published were incorrect.

Recommendation – The County Extension Office’s annual report should be reviewed and amounts traced to the accounting records to ensure accurate information is published.

Response – Next year we will be sure the receipts and disbursements are correct in the published report.

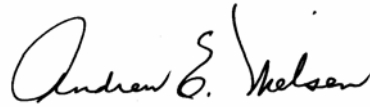
Conclusion – Response accepted.

Adair County

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Heather L. Templeton, Senior Auditor
Tiffany A. Gossweiler, Staff Auditor
Ryan J. Sisson, Staff Auditor
Janet M. Tiefenthaler, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State